

The departmental budget review reconvened at 11:15 a.m., and proceeded as follows:

(Mr. Bynum was noted excused.)

AUDITOR:

Mr. Kaneshiro: Budget review session is now called back to order. Mr. County Auditor, you have the Chair so it's all yours. You can start with your presentation.

ERNESTO PASION (COUNTY AUDITOR): Budget and Finance Chair Kaneshiro and Committee Members, for the record Ernesto G. Pasion, your County Auditor. I have provide the staff to distribute to all of you a copy of my PowerPoint presentation and my text, so let me start.

"In November 2008, the voters passed a Charter amendment establishing the Office of the County Auditor as an independent department reporting directly to the County Council. I was installed as the first County Auditor in September 2009, and hired my first staff member in October 2009."

In this presentation I will explain the budget of the Office of the County Auditor.

"The Auditor's budget is based on the audit requirements of the generally accepted Government Auditing Standards (GAGAS or the Yellow Book). Conformance to GAGAS is required by Charter section 32.02. D., which states that "the County Auditor's audit activities shall be subject to quality review in accordance with applicable government auditing standards." In order to pass the quality review standards, the Auditor's Office operates under the strict guidance of its procedural manual, which is designed to meet GAGAS standards. Out procedural manual is substantially identical to the manual used by the City and County of Honolulu, which was in turn based on the procedures of the Hawai'i Legislative Auditor.

The GAGAS requirements are federal directives dealing with the independence of the audit function and quality control of fieldwork and reports. GAGAS requirements make certain that high quality government audits are conducted uniformly, and with safeguards, so that the audits are conducted with competence, integrity, objectivity, and independence.

Therefore, the budget provides for the two (2) audit professionals necessary to conduct independent reviews under the quality control requirements of GAGAS and the procedural manual, funds for continuing education mandatory under the GAGAS, and sufficient funds to engage specialty expertise, when such expertise is not present in-house. The budgeted resources will enable the Auditor's Office to pass the GAGAS peer review mandated by the Charter.

In addition, the Auditor's Office is part of a network of state and municipal auditors whose work is relied upon by the federal government to ensure fraud, waste, and abuse do not occur using economic stimulus or other federal funds. This responsibility to the federal government cannot be performed without GAGAS compliance.

Staffing proposed in the originally-submitted budget

The projected staff size for this office is four (4), consisting of the County Auditor, two (2) audit professional and an Analyst. The two (2) professional are the minimum required to perform audits under the quality control and accuracy requirements of the GAGAS and the office's auditing manual. A minimum of two (2) audit professionals is necessary so the audit results can be checked by an audit professional who was not involved in the audit. The real measure of adequacy of staffing and budget is in comparing the staffing and costs of other auditor's offices. The projected staff size

compares favorably to the County of Hawai'i, which has six (6) staff members, and Honolulu which has eight (8).

The per audit hour cost in our budget also compares favorably. In Fiscal Year 2008-2009, the City and County of Honolulu published four (4) audit reports at a net audit hour cost of eighty-one dollars and thirty cents (\$81.30). County of Hawai'i published two (2) audit reports for a net audit hour cost of sixty-four dollars and twenty cents (\$64.20). With our projected number of audits this FY, our average net audit hour cost is eighty-one dollars and forty-seven cents (\$81.47), which compare very favorably considering we understand the other counties do not fund any of the fringe benefits, which are fifty-nine point fifty-five percent (59.55%) of payroll in our case. Our eighty-one dollars and forty-seven cents (\$81.40) per audit hour average cost includes all benefits and costs in our budget, except for consultants. This rate also is much lower than the average rates for outside auditors, which a recent quote showed to be one hundred eighty-two dollars and sixty cents (\$182.60).

Non-salary line items

- Training, travel, and travel-related
- The funds for training, travel, and travel-related costs are set at the minimum level to meet GAGAS requirements of eighty (80) hours of continuing education over two (2) years for each auditor.

- Dues and subscriptions
The main items in this line item are funds for continued membership in two (2) national auditing organizations, the Association of Government Accountants and the Association of Local Government Auditors, fees to maintain professional credentials, and periodicals and publications to start an auditing library. We will also use on-line subscriptions and references to reduce costs whenever possible.

- Consultant services
The consultant services line item includes the costs of the financial and single audits, engineering consultants, special counsel, investigators, and subpoena costs to be used in the unfortunate case we are prevented from access to information for audits, or if an audit discloses potential fraud. Along with other municipal auditors, we have been asked to report any instances of fraud or wrongdoing on economic stimulus projects to the federal government.

The last item under consultant services is for financial and forensic auditors, which will be used to hire outside CPA services, including IT or forensic auditors as needed.

Equipment and supplies

The other costs in the budget are the equipment and supplies necessary to start and operate the office. The addition of a "Lease" line item is included to provide for office space. Our lease is temporary until appropriate space within a County-owned building becomes available. We are also requesting six thousand dollars (\$6,000) in this item for electricity costs.

Budget cuts

A twenty-one percent (21%) cut was made to our proposed budget. In addition to the salary cuts to account for furloughs, the funding for the in-house CPA position was reduced to one dollar (\$1) and sixty-five thousand dollars (\$65,000) was cut from the subaccounts in the Consultant Services line item. Since our budget was designed to meet GAGAS requirements, it is safe to say that these cuts will affect our ability to comply.

Auditor's request

The request of the Auditor's Office is to restore the funding for the Consultant Services to full funding. The addition of the funds will enable the Auditor to remedy the elimination of the second audit professional position, by converting and foregoing the Analyst position, or by outsourcing. Although this restoration falls short of the full budget restoration, we will also be carefully examining additional options to deal with the shortfall, such as reducing the number and/or scope of audits that will enable to be GAGAS compliant with the reduced funds.

We are also requesting six thousand dollars (\$6,000) to pay for electric utility expenses under the "lease" line item.

Since we were hired last fall, the Audit Manager and I conducted extensive research and risk evaluations on approximately twenty (20) audit subjects, and drafted detailed audit plans for ten (10). The ten (10) will be further evaluated, and from three (3) to five (5) will be included in the 2010-2011 work plan, depending on resources. Also depending on resources, we hope to be able to include two (2) non-audit projects in the work plan. The actual work plan will be filed as required by Charter, once the available resources are known. The filing will take place in June, after the budget is finalized, consistent with the practice in other jurisdictions.

Benefits of the audit function

The audit function provides many benefits to the citizens of the County. Audits provide factual information to County policymakers and the public. Financial audits tell us the financial condition of the County. Performance audits by the County Auditor provide information about specific programs, so they can be evaluated.

Audits can also identify inefficiencies and fraud and other risk. The Institute of Certified Fraud Examiners estimates that seven percent (7%) of the typical entity's annual budget is lost to fraud along each year, so if the County's exposure to fraud is not detected because there is little or no internal oversight, the County may be experiencing losses of twelve million nine hundred fifty-nine thousand and eight hundred dollars (\$12,959,800) or more due to fraud and inefficiency.

Unlike outside auditors, our permanent presence in the County means the County Auditor can continually make certain recommendations to improve efficiency and lower costs are not ignored or set aside for other priorities. For example, we are able to track the department's progress and remind them of their commitments to implementing the recommendations.

Audits also identify opportunities to help departments work together effectively. For example, will a centralized personnel function work better than the current system?

The reports of all audits performed by my department are public, and posted on our website. This enables the community to have access to the same information we provide to the County and the Mayor. The audits and the non-audit projects provide many benefits to the County decision makers and the public.

Why audit now?

Hard economic times require us to improve the efficiency of our public services. Some important reasons to audit now are one (1) identify inefficiency and waste and potential new revenue sources and two (2) to quantify the effect of budget reduction measures such as furloughs and freezes on the bottom line, taking into account any effects on productivity, morale and fraud risk.

Conclusion

It has been shown all over the nation that a municipal auditor's audits and projects can produce significant efficiencies and savings, as well as transparency and reassurance to the general public that their tax dollars are being spent ethically, competently, and appropriately.

This is the first full year in the life of the Office of the County Auditor. We ask that the Council strongly endorse the importance of the internal audit function, especially in these difficult times, and ask for your favorable support for the budget necessary to complete the program.

This concludes my presentation I am open to any questions.

Mr. Kaneshiro: Okay questions by Committee members? Jay go ahead.

Mr. Furfaro: Thank you. May I just take a moment to read this. This is the Charter amendment as it was presented to the voters. This is to establish within the Legislative Branch, the Legislative Branch an Office of the County Auditor to be headed by a County Auditor who shall be appointed by the County Council and shall serve for a period of six (6) years and therefore until the successor is appointed. The Salary Commission shall fix the salary of the County Auditor and the County Council shall by two, thirds (2/3) votes of each membership may also remove the County Auditor from the Office at any time for any cause. So we have an auditor, your Department now as its presented to the voters, I think it's an important time for us to have this option but I'm not sure starting off Ernie that we should've first go to each Department you and your staff go to each Department and share with them what your mission is according to the Charter.

Mr. Pasion: Ah.

Mr. Furfaro: Have we done that, have we plan to do that? I mean go into Building and tell them what your role is. I don't want anybody to fear the Auditor I want them to understand the Auditor Department.

Mr. Pasion: To comply with established protocol between the Legislative Branch and the Administrative Branch, we have sent a communication to the Mayor and a copy to the Mayor's Assistant that we are willing to go to each Department and provide orientation about the function of the County Auditor's Office.

Mr. Furfaro: Okay...

Mr. Pasion: And in ah...

Mr. Furfaro: Okay let me say it again, not request you NEED to do that. They need to know your function.

Mr. Pasion: But...

Mr. Furfaro: This is a message I shared with you (inaudible)... But they need to know your function.

Mr. Pasion: But the established protocol again between the Legislative and Administrative Branch is that you have to go through the Mayor...

Mr. Furfaro: Well I appreciate the fact that you sent a communication over, I'll send a communication over that I would like to see a schedule, I would like to know when he's

presenting his role to the Building Department, to the Parks Department and so forth so that they understand his role. I think that's really important.

Mr. Asing: Jay can I?

Mr. Furfaro: Yes.

Mr. Asing: Can I follow up on that I think what the Auditor is trying to say is that they sent a communication in attempting to work with the Administration on providing that service and I think it is a good, fair way to do it. And have the Administration respond in what they feel is the best way to do it and work together with the Auditor's Office, I think that's a fair and good way to start.

Mr. Furfaro: Yeah. But I want to make sure we start that way.

Mr. Asing: Yeah.

Mr. Furfaro: And I don't want people to interpret a visit from the Auditor Department as them against us you know it's not that way, it's for the mutual benefit of the whole County and I do understand your point, there is protocol here.

Mr. Asing: Yeah and I...

Mr. Furfaro: It is now March... No April...

Mr. Asing: And I think what the Auditor is trying to say is he does not feel it is within his jurisdiction to tell the Administration what they're going to do more than advice and work with the Administration so that there is a good working relationship between them...

Mr. Furfaro: I understand that you know in my life I have gone through many audits, I know the parts and the first things I do is make sure that auditors have an opportunity to visit with the controller, the Chief Engineer, the Purchasing Department and we understand what we're trying to accomplish. So but I understand the point about courteous here...

Mr. Kaneshiro: Can you...

Mr. Furfaro: But this is the opportunity just to say that that should happen.

Mr. Kaneshiro: Can you get a copy to the Council of what you requested?

Mr. Pasion: I don't...

Mr. Kaneshiro: And then we can follow up on it.

Mr. Pasion: Okay.

Mr. Kaneshiro: Okay?

Mr. Pasion: Well we did that in mind that fact that although we are an independent agency attached to the County Council, we also believe in the separations of powers between the Legislative and the Administrative so that's the reason why... we are aware of the established protocol between the two (2) Branches and that's the reason why we did it that way.

Mr. Kaneshiro: Okay that's fine.

Mr. Furfaro: But...

Mr. Kaneshiro: Just send a copy of your request.

Mr. Furfaro: Send a copy over to us because at some point...

Mr. Kaneshiro: And then we can follow up we realize that.

Mr. Furfaro: You're going to have to send to us your audit plan, right?

Mr. Pasion: Right.

Mr. Furfaro: And accordantly it's due to us by June. You're going to do three (3), four (4) audit of the Departments it's you that determines you know that that priority list, I guess.

Mr. Pasion: Right.

Mr. Furfaro: We can make suggestions but it's you that needs to determine that. Could you given the fact and I heard you that you need a CPA in your office, I heard that. Could you give me an idea of how the auditor's Department can actually save us in your opinion through this staffing some operational savings?

Mr. Pasion: Well as you know we are part of a network of audit jurisdiction, Nationwide and so we have access to their websites and all I can say is that since we haven't done any yet you know we're eager to start with the proper staffing, I can say that we looked at auditor jurisdictions and close by in the Honolulu, the City Auditor the Management Practices of City Owned vehicles and they found some cost savings there. They also audited their electricity costs in consumption and management and they made recommendations and they made some savings there. They also audited selected management issues of the Honolulu Board of Water Supply and in the mainland we looked at the City of Austin Texas they audited their information technology project management and also in Arlington Texas we looked at their (PC) card or Procurement Card audited PC Card audit. And also in Albuquerque New Mexico they managed they had a management of audit of issuance and benefit costs and made some recommendations there. Also in Denver Colorado they had an audit of Citywide Contract procurement process. In addition audits can increase a person's dollars by identifying new or under collected sources of revenue. In Austin Texas they did a franchise fee audit in Dallas Texas they audited the inappropriate tax exemptions and delinquent property taxes. For here looking into you know Building permits and you know things like that. Audits can also save operational dollars by identifying fraud and other risk like in Arlington Texas they audited their cash handling management. So these are the things that audit jurisdictions are... have done and like I said we belong to Association of Audit... Accountants and Auditor's and so we have access to their websites and we can look at what they have done and see if it applies to us.

Mr. Furfaro: I just want to say I you know because of what you will provide to us for a plan, I can support us having a CPA on the staff but I wanted... and I didn't hear items such as reviewing our overall budget as it relates to benefit costs. You know that's something that we really should be looking into. Just in the last three (3) days here we've had percentages of payroll budget going forty-eight (48) as high a fifty-nine percent (59%) seems to me we need to see if can be a little more consistent in that budgeting.

Mr. Pasion: Yeah.

Mr. Furfaro: I think you were here when the Police Department and the discussion lead to them to be about nine, nine point five percent (9.5%) maybe... or budgeted contingencies than

necessary. In my line of work if we budget more than five percent (5%) it should be no more than five (5) and certainly under ten (10) when you do the budget if not it leads to a larger surplus but it also prevents us, if we don't get into that margin up to five (5) to ten percent (10%), it prevents us to putting money... I think Councilmember Kaneshiro said this in to areas that we need extra staffing so you know it's got to be tweaked.

Mr. Pasion: Well Councilmember, Vice Chair the Council in pursuant also to the Charter has the prerogative to as a Resolution to submit to us which items be... you want us to pursue as far as audits. And maybe one of those would be...

Mr. Furfaro: And your obligation is to provide to us the plan of what you're going to audit each year.

Mr. Pasion: Yes we looked at the City and County of Honolulu and they earliest that they have was June 1, the latest was June 29 after their budget was approved.

Mr. Furfaro: And how do you see your Department handling issues that deal with the requirements now that we have all this sustainability money and stimulus money with a CPA could your office meet the criteria for those audits or is that something we still have to...

Mr. Pasion: It... we have added fifty thousand dollars (\$50,000) in the (inaudible) consultant fees budget Vice Chair that will be handled by our outside auditors. (inaudible) that will be doing all the at least fifteen (15) projects that have been funded by the American Reimbursement Recovery Act.

Mr. Furfaro: Okay and that's in your budget that fifty thousand (50,000)?

Mr. Pasion: Yes. Yes Vice Chair.

Mr. Furfaro: To cover the American Recovery's requirement.

Mr. Pasion: Right.

Mr. Furfaro: (inaudible) the detail, is that (inaudible)?

Mr. Pasion: We have consultant with them and they gave us that estimate to us and so that's why we included that amount in the budget.

Mr. Furfaro: And how many federal programs we have like that fourteen (14)?

Mr. Pasion: Well so far we looked at, at least fifteen (15). At least fifteen (15) that will be included in the single audit for next year because they will involve the 2009-2010 funding.

Mr. Furfaro: Are you competent in the fact that we can comply to what is referred to as the Yellow Book standard for audits?

Mr. Pasion: Provided that we get the sufficient funding for my staffing.

Mr. Furfaro: Okay.

Mr. Pasion: Because like I said it's a you need to have two (2) professional auditor's to audit one that's assigned and that do the independent review.

Mr. Furfaro: But I just want to make sure you also understand that I certainly believe you need a CPA in your staff, I don't know how much more your staff should grow until we see your report as to what we can accomplish.

Mr. Pasion: Right.

Mr. Furfaro: And what other savings that it would be so. I look forward to that presentation and it looks like you and your team have given this a lot of thought, so thank you for your PowerPoint.

Mr. Pasion: Thank you.

Mr. Furfaro: Thank you Chair.

Mr. Kaneshiro: Okay any other Committee members have questions for the County Auditor Department? None? With that Mr. Pasion.

Mr. Pasion: Thank you and we're looking forward to...

Ms. Kawahara: Oh I don't have a question but I have a statement.

Mr. Pasion: Oh.

Mr. Kaneshiro: Absolutely.

Ms. Kawahara: Oh okay. Yeah just I didn't have a question so I didn't raise my hand but I just wanted to welcome the Auditor's Department to the County and I'm looking forward to the work that your proposing to do and I'm hoping that you will be able to help us a lot with increasing efficiencies and making sure that there's not unintended waste or definitely with the issues of furloughs and morale, I'm looking forward to having discussions with you on that as it relates to morale and possible increase in I guess what you had discussed as fraud, right?

Mr. Pasion: Right.

Ms. Kawahara: Because of that. So welcome to the County and again I'm hoping to have good things come from your office and help us become a very efficient county agencies because that's definitely looking for and I think what the... people wanted to do with the amendment to the Charter so I'm looking forward to that and thank you for your budget.

Mr. Pasion: You're welcome and thank you Councilmember.

Mr. Kaneshiro: With that thank you Ernie, you're excused. We're going to recess this Budget Review Session until Thursday April 15 and we're going to begin at 9:00, we'll be taking the Housing Agency, Agency of Elderly Affairs, Transportation Agency, Finance Department and Planning Department so we have a whole schedule of Department's to review starting Thursday, with that we're in recess.

The Auditor's departmental budget review concluded at 11:46 a.m., and there being no objections, the meeting was in recess.